



Press Release

K M Sugar Mills Limited

February 28, 2022

Ratings

Facility*	Amount (INR Crore)	Rating	Rating Action	Complexity Indicator
Long term Bank Facilities	195.33 (reduced from 199.71)	IVR A-/Stable (IVR Single A Minus with Stable Outlook)	Revised from IVR BBB+/Positive (IVR Triple B Plus with Positive Outlook)	Simple
Short term Bank Facilities	7.00	IVR A2+ (IVR A Two Plus)	Revised from IVR A2 (IVR A Two)	Simple
Total	202.33 (Rupees Two Hundred Two crore and Thirty-Three Lakh)			

*Details of Facilities are in **Annexure 1**

Detailed Rationale

The revision in ratings assigned to the bank facilities of K M Sugar Mills Limited (KMSML) is on account of improvement in its overall performance of during 9MFY22 and FY21. The ratings continue to derive strength from its established track record, experienced promoters and satisfactory financial risk profile with healthy debt protections metrics. These strengths are partially offset by working capital intensive operations, susceptibility of the revenues and profitability due to vagaries of nature, cyclical nature of business and risk related to various government rules & regulations.

Key Rating Sensitivities

Upward Factors

- Improvement in cane crushing levels and recovery rate, along with favourable demand-supply dynamics, firm sugar prices over a sustained period, and the consequent improvement in profitability and debt coverage metrics
- Increase in extent of diversification in revenue stream along with geographical diversification

Downward Factors

- Decline in the cane crushing volumes or recovery rate or an increase in the cane prices resulting in deterioration of profitability and debt coverage metrics
- Any adverse government regulations
- Deterioration in working capital management leading to stretched liquidity



Press Release

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters and management

Mr. L K Jhunjhunwala, is the Chairman of the company with an extensive experience of more than 5 decades in Sugar business. Mr. Aditya Jhunjhunwala looks after the day-to-day operation and has almost 3 decades of experience in this line of business. Mr. Sanjay Jhunjhunwala has business experience of over 2 decades is Joint Managing director in the company. He looks after commercial operations and distillery business.

Satisfactory financial risk profile marked by healthy debt protection metrics

Total income of the company stood at INR 442.47 crore as of 9M-FY22 and INR 507.24 crore in FY21. Operating margins & net profit margins surged to 14.13% & 7.75% respectively in 9M-FY22. Profitability has improved backed by increased sugar recovery rate and better ethanol prices. The debt protection metrics remained healthy in FY21 with ISCR at 5.06x and DSCR at 1.48x. The overall gearing ratio and long-term debt equity ratio stood at 0.94x & 0.29x respectively in FY21. The company utilizes around 10MW for captive & internal processes & balance 15MW is sold to Uttar Pradesh Power Corporation Ltd with a tenure till March 2027 providing long term revenue visibility.

Key Rating Weaknesses

Working capital intensive operations

Since sugar is an agro-based commodity. Hence, the sugar inventory is piled up during the crushing season and gradually released till the commencement of the next crushing season, resulting into high inventory carrying cost, high inventory days of 266 and requirement of higher working capital along with high creditors days of 120 days in FY2021.

Exposed to vagaries of nature

Being an agro-based industry, performance of K.M.Sugar Mills is dependent on the availability of sugarcane crop and its yield, which may get adversely affected due to adverse weather conditions. The climatic conditions and pest related attacks have a bearing on the cane output, which is the primary feedstock for a sugar producer. Climatic conditions, precisely monsoons influence various operational structures for a sugar entity, such as the crushing period and sugar recovery levels.

Exposure to risk related to government regulations

The Sugar industry is highly exposed to risks related to Government regulations. Various Government Acts virtually governs all aspects of the business, which include the availability and pricing of sugarcane, sugar trade and by - product pricing. The procurement of sugarcane by the sugar entities is governed by the Sugarcane (Control) Order, 1966, which stipulates that the mills need to source their sugarcane only from the command area allocated to them. The order also makes it mandatory for the sugar mill to necessarily uplift the entire sugarcane



Press Release

production of the farmer, irrespective of the market demand, which has a considerable impact on the inventory holding pattern. Further, Government intervention also exists to control the sugar prices to curb food inflation and stabilize the sugar prices in the domestic market. Moreover, ethanol-blending policy is also highly regulated by the government. Vulnerability in business due to Government regulations is likely to continue over the medium term.

Cyclical nature of the sugar business

The key parameters of the sugar supply in the domestic market for a given sugar season are typically controlled by factor like domestic sugar production, opening sugar stock levels and global sugar production and sugar imports. The industry is highly cyclical in nature because of variations in the sugarcane production in the country.

Analytical Approach: Standalone

Applicable Criteria

[Rating Methodology for Infrastructure entities](#)

[Financial Ratios & Interpretation \(Non- Financial Sector\)](#)

[Criteria of assigning Rating Outlook](#)

Liquidity: Adequate

Liquidity profile of the company remained adequate marked by current ratio which stood at 2.22x as of 6M-FY22 (1.21x in FY2021) and cash and cash equivalents of INR37.01 crores. Gross cash accruals of the company stood healthy at INR 34.10 crores as of 6M-FY22 (INR 42.74 crores in FY2021). The average working capital utilization for past 12 months ending in January 2022 stood at ~35% providing adequate cushion in the working capital limits.

About the Company

KM Sugar Mills Ltd (KMSML) was incorporated in 1971 and has been engaged in the manufacturing and selling the sugar, power and industrial alcohols. The company has the sugar plant with the installed capacity of 9,500 TCD, Distillery Plants of 50 KLPD, Ethanol and cogeneration plant of 25MW. Sugar Plant manufactures & sells 3 grades of sugar in bags of 50Kg. Distillery Plant manufactures rectified spirit, special denatured spirit, ethanol & Sanitizer. The company has its own baggase based Co-Gen Power plant with the capacity 25MW of Motinagar, Faizabad, Uttar Pradesh. The company is supplying surplus power to the Uttar Pradesh Power Corporation Limited.



Press Release

Financials: Standalone

(INR crore)

For the year ended*/As on	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	531.35	502.73
EBITDA	50.19	55.58
PAT	18.43	26.24
Tangible Net worth	187.28	213.42
Tangible Net worth (Adj)	126.56	153.42
EBITDA Margin (%)	9.45	11.06
PAT Margin (%)	3.40	5.17
Overall Gearing Ratio (x)	0.93	0.94

*As per Infomerics Standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Facilities	Current Rating (Year 2021-22)			Date(s) & Rating(s) assigned in 2021-22 (July 15, 2021)	Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Current Rating		Date(s) & Rating(s) assigned in 2020-21 (Sept 09, 2020)	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Term Loan	Long Term	23.08	IVR A-/ Stable Outlook	IVR BBB+/ Positive Outlook	IVR BBB+/ Stable Outlook	NA	NA
2.	Cash Credit	Long Term	172.25	IVR A-/ Stable Outlook	IVR BBB+/ Positive Outlook	IVR BBB+/ Stable Outlook	NA	NA
3.	Bank Guarantee	Short Term	7.00	IVR A2+	IVR A2	IVR A2	NA	NA

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Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate / IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Long Term Fund based facilities - Term Loan	-	-	March 31, 2025	23.08	IVR A-/ Stable Outlook
Long Term Fund based facilities - Cash Credit	-	-	Revolving	172.25	IVR A-/ Stable Outlook
Short Term Non-Fund based facilities - Bank Guarantee	-	-	Less than a year	7.00	IVR A2+

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details



Press Release

<https://www.infomerics.com/admin/prfiles/KM-SugarMills-lenders-feb22.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

